

Liquidity and Funding Risk

Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

It is BMO's policy to ensure that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress.

Our liquidity and funding risk management framework includes:

- oversight by senior governance committees, including the BSMC, RMC and RRC;
- an independent oversight group within Corporate Treasury;
- an RRC-approved limit structure to support risk management;
- effective processes and models to monitor and manage risk;
- strong controls over processes and models and their uses;
- a framework of scenario tests for stressed operating conditions; and
- contingency plans to facilitate managing through a disruption.

Data provided in this section reflect BMO's consolidated position. BMO subsidiaries include regulated and foreign entities, and therefore movements of funds between companies in the corporate group are subject to the liquidity, funding and capital adequacy considerations of the subsidiaries, as well as tax considerations. Such matters do not materially affect BMO's liquidity and funding.

BMO's liquidity and funding position remains sound and there are no trends, demands, commitments, events or uncertainties that are reasonably likely to materially affect the position.

We actively manage liquidity and funding risk globally by holding liquid assets in excess of an established minimum level at all times. Liquid assets include unencumbered, high credit-quality assets that are marketable, can be pledged as security for borrowings, or mature in a time frame that meets our liquidity and funding requirements. Liquid assets are held both in our trading businesses and in supplemental liquidity pools. Liquidity and funding requirements consist of expected and potential cash outflows. These arise from obligations to repay deposits that are withdrawn or not renewed, and from the need to fund asset growth, strategic investments, drawdowns on credit and liquidity facilities and purchases of collateral for pledging. Liquidity and funding requirements are assessed under expected and stressed economic, market, political and enterprise-specific environments, which determines the minimum amount of liquid assets to be held at all times.

Three of the measures we use to evaluate liquidity and funding risk are the liquidity ratio, the level of core deposits, and the customer deposits and capital to loans ratio. The liquidity ratio represents the sum of cash resources and securities as a percentage of total assets. This ratio provides an assessment of the extent to which assets can be readily converted into cash or cash substitutes to meet financial commitments, as cash resources and securities are more liquid than loans. BMO's liquidity ratio at October 31, 2007 was 33.1%, up from 27.2% at October 31, 2006. The increase in the ratio reflects a strong liquidity position.

Cash and securities totalled \$121.2 billion at the end of the year, up \$34.2 billion from \$87.0 billion in 2006, while total assets increased \$46.5 billion to \$366.5 billion.

Liquidity provided by cash and securities is supplemented by securities purchased under resale agreements, which also can be readily converted into cash or cash substitutes to meet financial commitments. Securities borrowed or purchased under resale agreements totalled \$37.1 billion at the end of the year, up from \$31.4 billion in 2006.

In the ordinary course of business, a portion of cash, securities and securities borrowed or purchased under resale agreements is pledged as collateral to support trading activities and participation in clearing and payment systems, in Canada and abroad. At October 31, 2007, \$29.9 billion of cash and securities and \$25.5 billion of securities borrowed or purchased under resale agreements had been pledged, compared

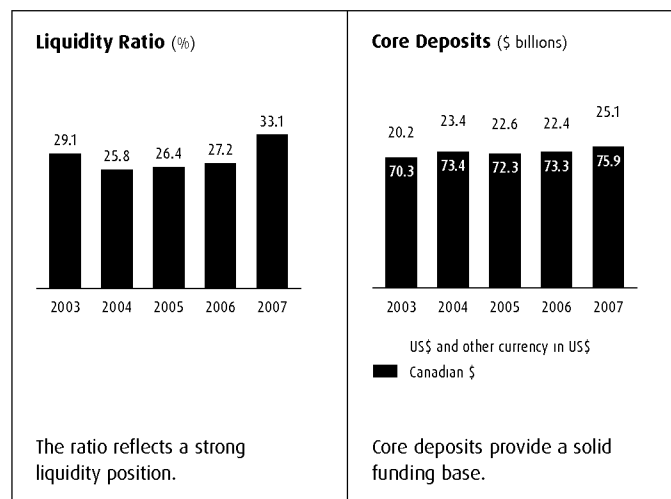
Liquidity and funding risk is the potential for loss if BMO is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, investment and pledging commitments.

with \$25.9 billion and \$25.4 billion, respectively, in 2006. These changes were primarily driven by trading activities. In addition, BMO is a party to certain agreements that could require incremental collateral under certain circumstances. These potential incremental collateral requirements are not material. Additional information on cash and securities can be found in Table 5 on page 79 and in Notes 2 and 3 on page 97 of the financial statements.

Core deposits are comprised of customer operating and savings deposits and smaller fixed-date deposits (less than or equal to \$100,000). Canadian dollar core deposits totalled \$75.9 billion at the end of the year, up from \$73.3 billion in 2006, and U.S. dollar and other currency core deposits totalled US\$25.1 billion, up from US\$22.4 billion in 2006. In addition, larger fixed-date customer deposits (excluding wholesale customers) totalled \$22.1 billion at the end of the year, up from \$20.3 billion in 2006. Total deposits increased \$28.2 billion at the end of the year to \$232.0 billion in 2006. The increase in total deposits reflects an increase in core and non-core deposits to fund loan and trading securities growth and to support the continued strengthening of our liquidity position.

Our large base of customer deposits, along with our strong capital base reduces our level of wholesale funding. Customer deposits and capital equals 93.3% of loans (excluding securities borrowed or purchased under resale agreements) at the end of the year, up from 89.9% in the prior year. Wholesale funding used to support loans is primarily longer-term (typically two to ten years in maturity term) to better match the maturity of loans. Our wholesale funding is diversified through guidelines by customer, type, market, maturity term, currency and geography. Information on deposit maturities can be found in Table 24 on page 89.

Our liquidity and funding position could potentially be affected by off-balance sheet arrangements and other credit instruments through our obligation to fund drawdowns. These exposures are captured within our risk management framework.



Operational Risk

Operational risk is inherent in all business activities. Operational risk can never be entirely eliminated; however, shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk.

To achieve this goal, BMO has developed an Operational Risk Management Framework (ORMF), which includes identification, measurement, management, monitoring, Economic Capital attribution and risk control and mitigation elements. A variety of underlying processes and controls have been developed as part of this framework. These include risk and control self-assessments, business contingency plans, event management, change management, outsourcing management and acquisition and integration management.

BMO's operational risk governance structure includes the Operational Risk Committee (ORC), a sub-committee of Risk Management Committee (RMC). ORC has oversight responsibility for operational risk strategy and governance. It provides advice and guidance to the lines of business on operational risk assessments, measurement and mitigation, and related monitoring and change initiatives.

BMO's intention is to make operational risk, like all other risks, transparent throughout the enterprise. Therefore, this framework includes regular reporting of relevant operational risk management activities and processes to senior line and corporate management, ORC, RMC and the Board of Directors. Operational risk events that occur within the Credit, Market or Liquidity Risk frameworks are managed within their respective framework.

Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.

Each line of business is responsible for using the aforementioned framework processes and control programs to manage its operational risk within the guidance provided by corporate policy and standards. To ensure that all operational risks to which a line of business is exposed are adequately managed, specialized functions are also involved in the management of risks as appropriate, including Finance, Taxation, Legal, Compliance, Privacy, Human Resources and Technology and Operations. BMO has established an Enterprise Operational Risk Management group that develops the ORMF, codifies the ORMF within corporate policy, oversees the risk assessment methodology and defines the reporting requirements.

BMO purchases insurance in such amounts and in such areas as will provide protection against unexpected material loss and when insurance is required by law, regulatory requirement or contractual agreement.

Under Basel II methodologies, BMO is implementing the Standardized Approach (TSA) for the calculation of operational risk regulatory capital requirements enterprise-wide. TSA processes and capital measures have been implemented at both the consolidated bank and applicable legal entity levels. BMO will not use partial applications of the Basic or Advanced Measurement Approach.

Business Risk

Business Risk due to Operational Failure

Business risk due to operational failure is the risk of losses or reductions in revenue arising from the indirect effects of operational risks, including reputation risk. In 2006, it was reclassified to the Business Risk category to align operational risk capital measures with the Basel II Standardized Approach. BMO attributes economic capital for this risk to the business units using a scenario-based model and reports this capital as a component of business economic capital.

Business Risk due to Earnings Volatility

Business risk due to earnings volatility measures the risk that volumes will decrease or margins will shrink with no opportunity being available to offset the revenue declines with a reduction in costs. BMO faces many risks that are similar to those faced by non-financial firms, principally that our profitability, and hence value, may be eroded by changes

Business risk is the risk associated with specific business activities of a company as they might affect the earnings of that company. BMO recognizes two distinct types of business risk: business risk due to operational failure and business risk due to earnings volatility.

in the business environment or by failures of strategy or execution. Sources of these risks include volatile economic market activity, changing client expectations, adverse business developments and relatively ineffective responses to industry changes. Risks to BMO's margins and volumes are categorized as business risk due to earnings volatility. In line with our standard practice of regularly evaluating methodologies, our business risk methodologies will be reviewed during fiscal 2008.

Reputation Risk

BMO's reputation is one of its most valuable assets. Key to effectively building and maintaining BMO's reputation is fostering a business culture that:

- incorporates integrity and ethical conduct as core values; and
- promotes a conviction that every business decision must reflect the enterprise's core ethical values.

The potential for damage to our corporate reputation exists in every business decision. Therefore, we believe that active, ongoing and effective management of reputation risk is best conducted through integration of explicit assessments of reputation risk into strategy development, operational implementation and transactional decision-making. Reputation risk is also managed through our corporate governance practices, code

Reputation risk is the risk of negative impacts resulting from the deterioration of BMO's reputation with key stakeholders. These impacts include revenue loss, reductions in our customer or client base and declines in BMO's share price.

of conduct and risk management framework. It is the responsibility of all employees to conduct themselves in accordance with *First Principles*, BMO's code of conduct, and thus build and maintain BMO's reputation.

The Reputation Risk Management Committee considers potential reputation risks to the enterprise, specifically reviewing complex credit and structured financings as required.

Environmental Risk

At BMO, we are very conscious of the emerging issues and risks associated with the environment and in particular, climate change. In 2007, we commissioned a benchmarking study in order to assess how best to address the issues relating to climate change. As a result, we have identified best practices of other financial institutions and are using these insights to enhance our own practices.

We are addressing climate change through a series of internal operating initiatives designed to reduce our impact on the environment. The key areas of focus for reduction are energy, paper products usage, and business travel.

Within our credit risk management policies and processes, we have a strong foundation for identifying, reviewing and managing environmental, social and governance issues related to lending transactions. We consistently apply the Equator Principles for managing social and environmental issues in project finance and continue to assess the appropriateness of our lending practices with respect to changes in environmental public policy issues and legislation.

BMO remains committed to the principles of sustainable development and, in particular, to the belief that the quality of our lives improves when economic growth is integrated with respect for the environment.

Environmental risk is the risk of loss or damage to BMO's reputation resulting from environmental concerns related to BMO or its customers. Environmental risk is often associated with credit and operational risk.

MD&A

Review of Fourth Quarter Performance

Most of our businesses achieved strong results in the fourth quarter of fiscal 2007 in a difficult capital markets environment. Net income was \$452 million, a decrease of \$244 million from the fourth quarter of 2006. Summary income statements and data for the quarter and comparative quarters are outlined on page 76. Results reflected \$275 million after tax in respect of charges related to deterioration in capital markets, losses in our commodities business, an increase in the general allowance and a restructuring charge. Excluding these significant items, net income was \$727 million, an increase of \$54 million from a year ago after adjusting for the \$23 million impact of a reduction in the general allowance in the prior year.

Personal and Commercial Banking net income increased \$20 million or 7% from a year ago to \$316 million. P&C Canada net income increased \$12 million or 4% to \$284 million. There was good volume growth in a number of product areas but revenues were affected by lower net interest margin, while expenses increased. Results in P&C Canada also included \$6 million of net income arising from three items: a \$107 million (\$83 million after tax) gain on sale of MasterCard International Inc. shares and a \$43 million recovery of prior years' income taxes; less a \$185 million (\$120 million after tax) adjustment to increase the liability for future redemptions related to our credit card loyalty rewards program.

P&C U.S. net income increased US\$11 million or 51% to US\$32 million, due to the First National Bank & Trust acquisition, reduced acquisition integration costs and effective cost control. Results in the quarter were encouraging, reflecting stability in net interest margin relative to preceding quarters. Excluding acquisition integration costs, net income improved for the fourth consecutive quarter, with a cash productivity ratio in the fourth quarter of less than 70% on that basis. The favourable impact of volume growth was largely offset by lower net interest margin.

Private Client Group net income increased \$23 million or 27% to \$107 million. Broad-based revenue growth was only partially offset by higher revenue-based costs and costs of investing to drive future revenue growth. Results were strong in the context of softer capital markets conditions in the quarter.

BMO Capital Markets net income fell by \$140 million. Its results were affected by a \$318 million (\$211 million after tax) charge for certain trading activities and valuation adjustments related to deterioration in capital markets and a \$24 million (\$16 million after tax) loss in our commodities business. The losses are discussed in more detail on page 38 in the Trading-Related Revenues section. Excluding these significant items, there was favourable performance in a number of areas including lending, foreign exchange trading and commission revenues. It was a challenging quarter for the group and for many other investment banks as concerns over asset quality affected liquidity, credit spreads and valuations. Activity levels were down from the first three quarters of the year in most product areas.

Corporate Services net income declined \$147 million. Results in Corporate Services were negatively affected by a \$24 million (\$15 million after tax) net restructuring charge and a \$50 million (\$33 million after tax) increase in the general allowance for credit losses, net of \$18 million of prior years' income tax recoveries. Results in the fourth quarter of 2006 were increased by a \$35 million (\$23 million after tax) reduction in the general allowance for credit losses and tax benefits from the resolution of certain tax matters, as well as a number of small initiatives.

The \$24 million net restructuring charge comprises a \$40 million charge and a recovery of \$16 million in respect of the \$135 million restructuring charge recorded in the first quarter. Costs of achieving the planned reductions in non-customer-facing positions were lower than

anticipated, mostly due to higher redeployment of staff. The fourth quarter charge relates to severance-related costs for approximately 400 positions across the organization.

Revenue decreased \$250 million or 10% from a year ago to \$2,244 million. Excluding the impact of significant items, revenue increased \$92 million or 3.7% from a year ago.

Net interest income decreased \$8 million or 1% from a year ago to \$1,240 million. There was strong growth in BMO Capital Markets, with reduced income in Corporate Services due to lower interest refunds on tax recoveries and lower securitization revenues. Average earning assets increased \$51 billion or 19% to \$322 billion, primarily due to growth in lower-spread trading products assets and corporate loans in BMO Capital Markets, where average earning assets increased \$46 billion. P&C Canada average earning assets increased \$5 billion due to loan growth across all products except mortgages, which declined as expected.

BMO's overall net interest margin on average earning assets for the fourth quarter of 2007 was 1.53%, or 30 basis points lower than in the fourth quarter of the prior year. The year-over-year decrease of 30 basis points was mainly due to growth in low-spread assets in BMO Capital Markets and its assets comprising a larger share of BMO's total assets. P&C Canada net interest margin declined 6 basis points due to increased funding costs and competitive pressures on personal and commercial loans, partially offset by increased mortgage spreads and positive product mix effects as deposit growth improved. Net interest margin in P&C U.S. was 23 basis points lower. Its net interest margin has been affected by the continued shift in customer preferences from higher-spread to lower-spread loan and deposit products and by competitive pressures. BMO Capital Markets net interest margin declined 5 basis points due to growth in low-spread assets, including increased levels of high-quality, highly liquid assets.

Non-interest revenue decreased \$242 million or 19% from a year ago to \$1,004 million. In the quarter, we recorded \$318 million of charges related to the deterioration in the capital markets environment, of which \$310 million was recorded in non-interest revenue. This was comprised of a \$295 million reduction in non-interest trading revenues and a \$15 million reduction in investment securities gains. Non-interest trading revenue decreased \$255 million from a year ago. Card services fees decreased \$210 million due to the \$185 million adjustment to increase the liability for future redemptions related to our credit card loyalty rewards program and the \$1.5 billion cards securitization in the fourth quarter of 2006. Investment securities gains increased \$102 million due to the \$107 million gain on sale of MasterCard shares. There were also increases in securities commissions, lending fees, mutual fund fees and foreign exchange revenues.

Non-interest expense increased \$42 million or 3% from a year ago to \$1,655 million. The increase was due to the \$24 million net restructuring charge and increases in professional fees, computer costs and promotion, partially offset by reduced performance-based compensation costs. There was an increase in front-line sales and service staff in P&C Canada and Private Client Group but increased salary and benefits costs in those groups were offset by lower costs in Corporate Services. BMO's productivity ratio was 73.7% in the quarter, compared with 64.6% a year ago. The cash productivity ratio was 73.3%, compared with 64.2% a year ago. The ratios were affected by the charges in the quarter. Excluding significant items, the cash productivity ratio was 62.7%, compared with 64.2% a year ago.

Credit conditions have deteriorated somewhat from the highly favourable conditions of 2006. The provision for credit losses totalled \$151 million in the fourth quarter of 2007, comprised of \$101 million of specific provisions and a \$50 million increase in the general allowance for credit losses. The provision for credit losses totalled \$16 million

in the fourth quarter of 2006, comprised of \$51 million of specific provisions net of a \$35 million reduction in the general allowance. Specific provisions in the fourth quarter of 2007 were at their highest level in some time, representing an annualized 19 basis points of average net loans and acceptances, including securities borrowed or purchased under resale agreements. However, almost half of the provision related to a single credit that was designated as impaired in the quarter and largely written off.

The provision for income taxes declined \$183 million from the fourth quarter a year ago and \$214 million from the third quarter, to a recovery of \$33 million. The effective tax rate for the quarter was a recovery rate of 7.4%, compared with an income tax rate of 17.4% in the fourth quarter a year ago. The favourable tax rate was largely attributable to the resolution of income tax audits resulting in the recovery of prior-period income taxes and a relatively higher proportion of income from lower-tax-rate jurisdictions.

Quarterly Earnings Trends

BMO's results and performance measures for the past eight quarters are outlined on page 76.

By focusing on our customers and delivering on our priorities, we were able to build solid momentum over the course of 2006 and 2007. Ending 2007, most of our businesses achieved strong results in the fourth quarter in a difficult capital markets environment.

BMO's quarterly earnings, revenue and expense are modestly affected by seasonal factors. Since our second fiscal quarter has 89 days and other quarters have 92 days, second-quarter results are lower relative to other quarters because there are 3 fewer calendar days, and thus fewer business days. The months of July (third quarter) and August (fourth quarter) are typically characterized by lower levels of capital markets activity, which has an effect on results in Private Client Group and BMO Capital Markets. The December holiday season also contributes to a slowdown in some activities; however, credit card purchases are particularly robust in that first-quarter period, as well as in the back-to-school period that falls in our fourth quarter.

The Canadian dollar strengthened significantly relative to the U.S. dollar in the two most recent quarters, an acceleration of the trend of the last three years. The weakening of the U.S. dollar has dampened revenue and expense growth over the past two years but has had a more modest impact on net income, in part due to our practice of hedging our currency exposure, which is explained on page 35.

BMO's provisions for credit losses measured as a percentage of loans and acceptances continues to compare very positively to our Canadian peer group. Quarterly provisions for credit losses have generally started to trend upward, as credit conditions have become more challenging compared to the highly favourable conditions of 2006.

The effective income tax rate can vary as it depends on timing of resolution of certain tax matters, the impact of initiatives and the relative proportion of earnings attributable to different jurisdictions in which we operate.

Personal and Commercial Banking earnings have largely trended higher over 2006 and 2007. In 2007, there was strong volume growth and stable margins with moderate increases in expense.

P&C Canada increased market share in our priority markets and we continue to invest for future growth. P&C Canada's net interest margin was stable in the latter half of 2006 and into 2007. Interest margin declined in the fourth quarter due to increased funding costs and lower mortgage refinancing fees. Results in the third quarter of 2006 were elevated by the \$51 million impact of a gain on the MasterCard IPO and a recovery of prior years' income taxes. P&C Canada's revenues were reduced in the fourth quarter of 2007 by the net impact of the \$185 million reduction in card fees associated with the adjustment to increase our liability for future redemptions related to our customer loyalty rewards program and the \$107 million gain on sale of common

shares of MasterCard, as well as reduced securitization revenue. Its results in the most recent quarter also included an income tax recovery of \$43 million, which offset the net impact of the card fees adjustment and gain on sale.

P&C U.S. net income, excluding acquisition integration costs, increased in each quarter of 2007 relative to the preceding quarter with a cash productivity ratio in the fourth quarter of less than 70% on that basis. Net interest margin has stabilized over 2007 with the impact of volume growth offsetting the shift in customer preferences toward lower-spread products and competitive pressures.

Private Client Group's results reflect strong momentum in its businesses and outstanding performance. Results have benefited from steady growth in fee-based revenue in full-service investing and in the mutual fund businesses and higher trust and investment revenue. Net income increased in the fourth quarter of 2007 despite softer market conditions.

BMO Capital Markets earnings in 2007 reflected favourable performance in a number of businesses. Quarterly revenue in 2007 was affected by the commodities losses with the impact diminishing in the fourth quarter as the size and the risk of the portfolio was significantly reduced. Performance-based compensation was lowered in the first two quarters of 2007 as a result of the commodities losses. Revenue in the fourth quarter of 2007 was affected by charges related to deterioration in the capital markets environment. Over the course of 2007, BMO Capital Markets maintained its momentum and focus and continued to demonstrate its Canadian leadership in core high-return fee businesses. Mergers and acquisitions and equity underwriting saw extremely strong performance and there was very strong growth in lending fees and commissions. Trading revenues were particularly high in the first quarter of 2006, returned to more typical levels over the middle of the year and declined in the fourth quarter of 2006. Trading revenues, other than commodities losses, were strong over the first three quarters of 2007 before decreasing significantly in the difficult market conditions in the fourth quarter.

Corporate Services quarterly net income varies in large part because of our expected loss provisioning methodology and the impact from revenue, expenses and income taxes not attributable to the operating groups. The fourth quarter of 2006 benefited from reduced income taxes, a low provision for credit losses, including the effects of a reduction in the general allowance, and a securitization gain. Results in the first quarter and fourth quarter of 2007 included restructuring charges to improve the efficiency and effectiveness of our organization, including enhancing customer service by investing in front-line sales and service people and simplifying processes across the organization. Results in the fourth quarter were also reduced by a \$50 million increase in the general allowance for credit losses.

Summarized Statement of Income and Quarterly Financial Measures

(\$ millions)	Oct. 31 2007	July 31 2007	April 30 2007	Jan. 31 2007	Oct. 31 2006	July 31 2006	April 30 2006	Jan. 31 2006	2007	2006	2005
Net interest income (teb)	1,240	1,301	1,247	1,235	1,248	1,267	1,143	1,213	5,023	4,871	4,906
Non-interest revenue	1,004	1,308	1,324	870	1,246	1,336	1,360	1,299	4,506	5,241	5,052
Total revenue (teb)	2,244	2,609	2,571	2,105	2,494	2,603	2,503	2,512	9,529	10,112	9,958
Provision for credit losses – specific	101	91	59	52	51	42	66	52	303	211	219
Provision for credit losses – general	50	–	–	–	(35)	–	–	–	50	(35)	(40)
Non-interest expense	1,631	1,659	1,614	1,538	1,613	1,600	1,560	1,580	6,442	6,353	6,332
Restructuring charge	24	–	–	135	–	–	–	–	159	–	–
Income before provision for income taxes and non-controlling interest in subsidiaries	438	859	898	380	865	961	877	880	2,575	3,583	3,447
Provision for income taxes (teb)	(33)	181	208	13	150	232	207	255	369	844	993
Non-controlling interest in subsidiaries	19	18	19	19	19	19	19	19	75	76	58
Net income	452	660	671	348	696	710	651	606	2,131	2,663	2,396
Amortization of intangible assets, net of income taxes	9	10	10	9	9	9	9	9	38	36	74
Cash net income	461	670	681	357	705	719	660	615	2,169	2,699	2,470
Taxable equivalent basis (teb) adjustment	44	54	43	39	33	33	30	31	180	127	119
Reported revenue per financial statements	2,200	2,555	2,528	2,066	2,461	2,570	2,473	2,481	9,349	9,985	9,839
Operating group net income:											
Personal and Commercial Banking	316	376	351	321	296	377	289	295	1,364	1,257	1,200
Private Client Group	107	105	101	95	84	83	97	91	408	355	314
BMO Capital Markets	48	196	199	(18)	188	203	247	222	425	860	850
Corporate Services, including T&O	(19)	(17)	20	(50)	128	47	18	(2)	(66)	191	32
BMO Financial Group net income	452	660	671	348	696	710	651	606	2,131	2,663	2,396
Information per Common Share (\$)											
Dividends declared	0.70	0.68	0.68	0.65	0.62	0.62	0.53	0.49	2.71	2.26	1.85
Earnings											
Basic	0.89	1.30	1.31	0.68	1.37	1.41	1.28	1.19	4.18	5.25	4.73
Diluted	0.87	1.28	1.29	0.67	1.35	1.38	1.25	1.17	4.11	5.15	4.63
Cash earnings											
Basic	0.90	1.32	1.33	0.70	1.40	1.42	1.30	1.21	4.25	5.33	4.88
Diluted	0.89	1.30	1.31	0.68	1.37	1.40	1.27	1.19	4.18	5.23	4.78
Book value	28.29	28.81	28.95	28.90	28.89	28.21	27.47	26.95	28.29	28.89	26.48
Market price											
High	67.17	71.35	72.75	72.22	69.55	65.00	70.18	70.24	72.75	70.24	62.44
Low	60.21	66.59	68.29	67.75	62.50	58.58	63.22	56.86	60.21	56.86	53.05
Close	63.00	66.59	69.46	70.01	69.45	63.95	64.67	68.30	63.00	69.45	57.81
Financial Measures (%)											
Five-year average annual total shareholder return	14.2	17.2	16.6	17.8	19.1	12.8	16.4	14.2	14.2	19.1	13.8
Dividend yield	4.4	4.1	3.9	3.7	3.6	3.9	3.3	2.9	4.3	3.3	3.2
Diluted earnings per share growth	(35.6)	(7.2)	3.2	(42.7)	5.5	29.0	6.8	5.4	(20.2)	11.2	5.2
Diluted cash earnings per share growth	(35.0)	(7.1)	3.1	(42.9)	3.8	27.3	5.0	3.5	(20.1)	9.4	5.1
Return on equity	12.2	18.0	18.3	9.2	19.4	20.3	19.3	17.8	14.4	19.2	18.8
Cash return on equity	12.5	18.2	18.5	9.5	19.6	20.6	19.6	18.1	14.7	19.5	19.4
Net economic profit growth	(78.1)	(19.8)	(4.2)	(114.6)	(1.0)	59.3	–	(4.5)	(51.0)	10.3	0.1
Net income growth	(35.0)	(7.1)	3.1	(42.5)	4.8	29.8	7.2	5.0	(20.0)	11.2	4.4
Revenue growth	(10.6)	(0.6)	2.3	(16.7)	(6.1)	6.7	3.1	2.9	(6.4)	1.5	5.3
Revenue growth (teb)	(10.1)	0.2	2.8	(16.2)	(5.9)	6.7	3.0	3.0	(5.8)	1.5	5.0
Net interest margin	1.47	1.61	1.65	1.64	1.78	1.84	1.78	1.86	1.59	1.81	1.97
Net interest margin (teb)	1.53	1.68	1.71	1.70	1.83	1.89	1.82	1.91	1.65	1.86	2.02
Productivity ratio	75.2	64.9	63.8	81.0	65.5	62.3	63.1	63.7	70.6	63.6	64.4
Productivity ratio (teb)	73.7	63.6	62.8	79.5	64.6	61.5	62.3	62.9	69.3	62.8	63.6
Cash productivity ratio (teb)	73.3	63.2	62.3	78.9	64.2	61.1	61.9	62.4	68.8	62.4	62.6
Provision for credit losses as a % of average net loans and acceptances	0.29	0.18	0.12	0.10	0.03	0.09	0.14	0.12	0.17	0.09	0.11
Effective tax rate	(19.3)	15.7	19.4	(7.8)	14.1	21.4	20.9	26.4	7.9	20.7	26.3
Effective tax rate (teb)	(7.4)	21.0	23.2	3.3	17.4	24.1	23.6	29.0	14.3	23.6	28.8
Canadian/U.S. dollar average exchange rate (\$)	0.999	1.067	1.144	1.162	1.115	1.116	1.141	1.156	1.093	1.132	1.214
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	4.07	3.49	3.86	4.19	3.81	3.86	4.58	4.48	4.07	3.81	4.92
Cash and securities-to-total assets	33.1	31.0	28.6	28.4	27.2	25.2	25.0	26.8	33.1	27.2	26.5
Tier 1 Capital Ratio	9.51	9.29	9.67	9.76	10.22	10.07	10.20	10.41	9.51	10.22	10.30

In the opinion of BMO's management, information that is derived from unaudited financial information, including information as at and for interim periods, includes all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and all growth rates represent year-over-year growth. Ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

2006 Financial Performance Review

Most of the preceding discussions in the MD&A focused on our performance in 2007. This section provides a summary of our performance in fiscal 2006.

Net income increased \$267 million or 11% to \$2,663 million in fiscal 2006 and earnings per share rose \$0.52 or 11%, to a record \$5.15. The increases were driven by improved revenues from business growth, stable lower provisions for credit losses and lower income taxes. Fiscal 2006 was BMO's fourth consecutive year of record earnings. Return on equity was 19.2%, up from 18.8% in 2005 due to the \$267 million increase in net income, partially offset by the effect of a \$1.1 billion increase in average common shareholders' equity.

Revenue on a taxable equivalent basis rose \$154 million or 1.5% in 2006 to \$10,112 million, driven largely by growth in Personal and Commercial Banking with support from BMO Capital Markets. Revenues were lower in Private Client Group due to the sale of *Harrisdirect* at the end of fiscal 2005. The weaker U.S. dollar reduced revenue growth in most of our operating groups, lowering BMO's overall revenue growth by \$170 million or 1.7 percentage points.

The favourable credit conditions of 2005 continued throughout 2006. Provisions for credit losses in 2006 were little changed at \$176 million, consisting of \$211 million of specific provisions net of a \$35 million reduction in the general allowance for credit losses. There were \$179 million of credit losses in 2005, reflecting specific provisions of \$219 million and a \$40 million reduction in the general allowance.

Non-interest expense increased \$21 million or 0.3% to \$6,353 million. The impact of having sold *Harrisdirect* in late 2005 net of the 2006 incremental expenses of acquired businesses decreased expenses by \$214 million (-3.1%), while the weaker U.S. dollar further reduced costs by \$112 million (-1.6%). Higher performance-based compensation costs increased overall expenses by \$45 million (0.6%). Other factors, including other business-based costs, increased overall expenses in 2006 by 4.4%. These included higher salaries and benefits costs associated with the expansion of our sales force as well as initiatives and costs associated with business growth.

Net income in Personal and Commercial Banking rose to \$1,257 million in 2006, up \$57 million or 5% from a then-record \$1,200 million in 2005. Revenue increased \$270 million or 5% to \$5,486 million, while expenses rose \$138 million or 4% to \$3,278 million.

Net income in P&C Canada rose \$66 million or 6% from the record results of 2005 to \$1,142 million. Results in fiscal 2005 benefited from the \$8 million net impact of \$34 million of recoveries of prior years' income taxes and a \$40 million (\$26 million after tax) increase in our customer loyalty card reserves. Results in fiscal 2006 reflected the \$51 million impact of a \$38 million (\$25 million after tax) gain on the MasterCard IPO and a \$26 million recovery of prior years' income taxes. Adjusted for the foregoing items, net income increased \$23 million or 2%. Revenue increased \$261 million or 6% to \$4,580 million, driven by volume growth in a number of product areas, as well as the gain on the MasterCard IPO and the adjustment to the loyalty card reserves. Growth was lowered by reduced securitization revenue and a 10 basis point reduction in net interest margin. The provision for credit losses increased \$45 million to \$314 million due to higher lending volumes and the availability of more detailed credit information as a result of our Basel II initiative. Non-interest expense increased \$116 million or 5% to \$2,597 million due to the expansion of our sales force and increased initiative and marketing costs.

Net income in P&C U.S. decreased \$9 million or 7% to \$115 million. Excluding the impact of the weaker U.S. dollar, investments in acquisitions integration and branch technology in 2006 and the branch charter consolidation in 2005, net income rose 4% from 2005. Revenue increased \$9 million or 1% to \$906 million, but increased \$74 million or 8% excluding the impact of the weaker U.S. dollar. The increase was attributable to acquisitions, consumer and small business loan growth,

improved deposit spreads, new branches and higher service charge revenue, partly offset by lower loan spreads. Expenses increased \$22 million or 3% to \$681 million, but increased \$70 million or 11% excluding the effect of changes in exchange rates. Expense growth was largely attributable to acquisitions and related integration costs, new branches, costs associated with volume growth and the implementation of our new branch technology platform, partially offset by costs incurred in 2005 for our branch charter consolidation.

Net income in Private Client Group reached a record \$355 million, an increase of \$41 million or 13% over 2005. Results in 2005 reflected the \$49 million (\$18 million after tax) gain on the sale of *Harrisdirect*, the group's U.S. direct investing operation, and a \$25 million (\$16 million after tax) gain on the sale of TSX common shares. Adjusting for the impact of the foregoing items, net income would have increased \$75 million or 27% from the then-record results of 2005. Higher earnings were achieved primarily through strong growth in operating revenues. Revenue declined \$144 million or 7% to \$1,893 million. However, after excluding the operating results of *Harrisdirect* and the \$74 million of gains on the foregoing asset sales, revenue increased \$134 million or 8%. There were increases in fee-based revenue in our mutual fund businesses and higher client trading volumes in direct investing, as well as increases in term deposit spreads with moderate balance growth. The weaker U.S. dollar reduced revenue growth by \$22 million, largely in the private banking business. Non-interest expense decreased \$187 million or 12% to \$1,342 million. However, after excluding the operating results of *Harrisdirect*, expenses increased \$56 million or 4%. The increase was primarily due to higher revenue-based costs, in line with increased revenue, combined with further investments in our sales force and U.S. investment management business. The weaker U.S. dollar reduced expense growth by \$18 million.

Net income in BMO Capital Markets rose \$10 million to a record \$860 million. Results in 2005 included \$44 million (\$37 million after tax) of revenue recognized on restructuring VIEs. Adjusting for the foregoing item, net income increased \$47 million or 6% from 2005 due to income tax initiatives and increased revenue, partially offset by higher performance-based compensation. Revenue increased \$39 million or 1% to \$2,780 million. The weaker U.S. dollar reduced revenue growth by \$96 million or 3 percentage points. Improved non-interest revenues more than offset reduced net interest income. Trading net interest income was much lower in 2006 than in 2005 but non-interest trading income was much higher and overall trading revenue was also much higher. Equity, foreign exchange and commodities trading revenues were higher, while interest rate trading revenues declined. Merger and acquisition fees and commission revenues were also much higher than in 2005. Net investment securities gains decreased \$43 million, in part due to the group's \$25 million share of the gain on sale of TSX common shares recognized in 2005. The prior-year results also reflected \$44 million of revenue recognized on the restructuring of VIEs. Net interest income declined, in large part due to higher funding costs associated with the expansion of our commodity and equity trading businesses. The decline was also due to lower spreads in our interest-rate-sensitive businesses related to rising short-term interest rates and a flatter yield curve, our strategy of reducing non-core assets and lower spreads on corporate loans, partially offset by growth in assets. Provisions for credit losses fell \$19 million to \$79 million due to lower expected losses, while non-interest expense increased \$122 million or 8% to \$1,602 million, due primarily to higher performance-based compensation related to strong fee-based and trading revenues.

Net income in Corporate Services was \$191 million, compared with \$32 million in 2005. The increase was driven by low income taxes, a reduced provision for credit losses and lower expenses. Results in 2006 included Corporate Services' \$23 million (\$15 million after tax) share of a \$27 million gain on a \$1.5 billion credit card loans securitization.

MD&A

Supplemental Information

Table 1 • Shareholder Value

As at or for the year ended October 31	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Market Price per Common Share (\$)										
High	72.75	70.24	62.44	59.65	50.26	40.65	44.40	35.80	34.80	43.50
Low	60.21	56.86	53.05	49.28	37.79	31.00	32.75	21.00	24.68	25.88
Close	63.00	69.45	57.81	57.55	49.33	38.10	33.86	35.25	28.33	31.55
Common Share Dividends										
Dividends declared per share (\$)	2.71	2.26	1.85	1.59	1.34	1.20	1.12	1.00	0.94	0.88
Dividends paid per share (\$)	2.63	2.13	1.80	1.50	1.29	1.18	1.09	0.99	0.93	0.88
Dividend payout ratio (%)	64.8	43.0	39.1	35.2	38.2	44.0	40.8	30.2	39.6	37.4
Dividend yield (%)	4.3	3.3	3.2	2.8	2.7	3.1	3.3	2.8	3.3	2.8
Total Shareholder Return (%)										
Five-year average annual return	14.2	19.1	13.8	18.9	12.9	7.9	14.3	22.9	22.0	23.3
One-year return	(5.8)	24.1	3.7	20.0	33.4	16.2	(1.2)	29.0	(7.4)	6.4
Common Share Information										
Number outstanding (in thousands)										
End of period	498,563	500,726	500,219	500,897	499,632	492,505	489,085	522,584	534,064	528,866
Average basic	499,950	501,257	500,060	501,656	496,208	490,816	511,286	531,318	531,723	525,021
Average diluted	508,614	511,173	510,845	515,045	507,009	499,464	523,561	540,815	542,920	542,181
Number of shareholder accounts	37,165	38,360	40,104	41,438	42,880	44,072	45,190	46,663	49,369	51,387
Book value per share (\$)	28.29	28.89	26.48	24.20	22.09	21.07	19.69	19.63	17.44	16.36
Total market value of shares (\$ billions)	31.4	34.8	28.9	28.8	24.6	18.8	16.6	18.4	15.1	16.7
Price-to-earnings multiple (based on diluted EPS)	15.3	13.5	12.5	13.1	14.3	14.2	12.7	10.8	12.1	13.8
Price-to-cash earnings multiple (based on diluted cash EPS)	15.1	13.3	12.1	12.6	13.7	13.5	11.8	10.4	11.5	13.0
Market-to-book value multiple	2.23	2.40	2.18	2.38	2.23	1.81	1.72	1.80	1.62	1.93

Table 2 • Summary Income Statement and Growth Statistics (\$ millions, except as noted)

For the year ended October 31	2007	2006	2005	2004	2003	5-year CAGR ⁽²⁾	10-year CAGR ⁽²⁾
Income Statement							
Net interest income (teb) ⁽¹⁾	5,023	4,871	4,906	4,937	4,929	0.9	2.0
Non-interest revenue	4,506	5,241	5,052	4,551	4,220	2.8	4.2
Total revenue (teb) ⁽¹⁾	9,529	10,112	9,958	9,488	9,149	1.8	3.0
Provision for credit losses	353	176	179	(103)	455	(15.5)	2.5
Non-interest expense	6,601	6,353	6,332	6,169	6,087	1.8	3.8
Income before provision for income taxes and non-controlling interest in subsidiaries	2,575	3,583	3,447	3,422	2,607	6.4	1.3
Income taxes (teb) ⁽¹⁾	369	844	993	1,110	804	(5.7)	(9.1)
Non-controlling interest in subsidiaries	75	76	58	17	22	30.5	11.6
Net income	2,131	2,663	2,396	2,295	1,781	9.2	5.6
Year-over-year growth (%)	(20.0)	11.2	4.4	28.9	29.7	na	na
Earnings per Share (EPS) (\$)							
Basic	4.18	5.25	4.73	4.51	3.51	8.9	5.9
Diluted	4.11	5.15	4.63	4.40	3.44	8.9	6.1
Year-over-year growth (%)	(20.2)	11.2	5.2	27.9	28.4	na	na
Diluted Cash Earnings per Share (Cash EPS) (\$) ⁽¹⁾							
Year-over-year growth (%)	(20.1)	9.4	5.1	26.7	26.9	na	na

(1) Refer to the Non-GAAP Measures section on page 34.

(2) Compound annual growth rate (CAGR) expressed as a percentage.

na – not applicable

Throughout this Supplemental Information section, certain amounts for 2005 and 2004 have been restated to reflect changes in accounting policies in 2006. Prior years' data has not been restated as the changes are not significant.

Table 3 • Returns on Equity and Assets (\$ millions, except as noted)

For the year ended October 31	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Net income	2,131	2,663	2,396	2,295	1,781	1,373	1,402	1,766	1,290	1,260
Preferred dividends	43	30	30	31	38	35	11	10	25	22
Net income available to common shareholders	2,088	2,633	2,366	2,264	1,743	1,338	1,391	1,756	1,265	1,238
Average common shareholders' equity	14,506	13,703	12,577	11,696	10,646	9,973	10,100	9,745	8,976	8,128
Return on equity (%)	14.4	19.2	18.8	19.4	16.4	13.4	13.8	18.0	14.1	15.2
Cash return on equity (%)	14.7	19.5	19.4	20.0	17.1	14.2	14.8	18.8	14.8	16.1
Return on average assets (%)	0.59	0.86	0.81	0.87	0.67	0.55	0.58	0.75	0.57	0.55
Return on average assets available to common shareholders (%)	0.58	0.85	0.80	0.86	0.66	0.54	0.57	0.75	0.56	0.54

Table 4 • Summary Balance Sheet (\$ millions)

As at October 31	2007	2006	2005	2004	2003
Assets					
Cash resources	22,890	19,608	20,721	18,045	19,860
Securities	98,277	67,411	57,034	49,849	54,790
Net loans and acceptances	201,188	190,994	174,337	156,248	146,156
Other assets	44,169	41,965	41,770	36,764	35,688
Total assets	366,524	319,978	293,862	260,906	256,494
Liabilities and Shareholders' Equity					
Deposits	232,050	203,848	193,793	175,190	171,551
Other liabilities	114,330	96,743	82,158	69,005	68,455
Subordinated debt	3,446	2,726	2,469	2,395	2,856
Preferred share liability	250	450	450	450	850
Capital trust securities	1,150	1,150	1,150	1,150	1,150
Share capital					
Preferred	1,196	596	596	596	596
Common	4,411	4,231	4,022	3,857	3,662
Contributed surplus	58	49	35	22	3
Retained earnings	11,166	10,974	9,801	8,738	7,566
Accumulated other comprehensive loss (1)	(1,533)	(789)	(612)	(497)	(195)
Total liabilities and shareholders' equity	366,524	319,978	293,862	260,906	256,494
Average Daily Balances					
Net loans and acceptances	204,153	185,801	169,523	154,863	150,784
Assets	360,575	309,131	296,502	262,898	263,966

(1) Certain comparative figures have been reclassified to conform with the current year's presentation.

Table 5 • Liquid Assets (\$ millions, except as noted)

As at October 31	2007	2006	2005	2004	2003
Canadian Dollar Liquid Assets					
Deposits with other banks	1,531	3,346	1,855	2,270	1,330
Other cash resources	1,981	551	586	(5)	1,313
Securities	57,206	30,647	28,723	25,383	28,790
Total Canadian dollar liquid assets	60,718	34,544	31,164	27,648	31,433
U.S. Dollar and Other Currencies Liquid Assets					
Deposits with other banks	19,209	14,465	17,232	14,256	16,774
Other cash resources	169	1,246	1,048	1,524	443
Securities	41,071	36,764	28,311	24,466	26,000
Total U.S. dollar and other currencies liquid assets	60,449	52,475	46,591	40,246	43,217
Total Liquid Assets (1)	121,167	87,019	77,755	67,894	74,650
Cash and securities-to-total assets (%)	33.1	27.2	26.5	26.0	29.1
Pledged assets included in total liquid assets (2)	30,369	26,299	27,760	18,812	18,698

(1) Includes liquid assets pledged as security for securities sold but not yet purchased, securities lent or sold under repurchase agreements and other secured liabilities.

(2) Includes reserves or minimum balances which some of our subsidiaries are required to maintain with central banks in their respective countries of operation.

Table 6 • Other Statistical Information

As at October 31	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Other Information										
Employees (1)	35,827	34,942	33,785	33,593	33,993	34,568	34,693	33,884	33,464	33,400
Bank branches	1,224	1,182	1,180	1,174	1,142	1,134	1,129	1,135	1,198	1,216
Automated banking machines (Canada)	1,978	1,936	1,952	1,993	2,023	2,000	1,982	1,987	2,039	2,069
Rates										
Average Canadian prime rate (%)	6.25	5.57	4.30	4.05	4.69	4.15	6.55	7.05	6.49	6.44
Average U.S. prime rate (%)	7.74	7.76	5.85	4.17	4.17	4.79	7.68	9.18	8.00	8.59
Canadian/U.S. dollar exchange rates (\$)										
High	1.19	1.20	1.27	1.40	1.59	1.61	1.49	1.44	1.45	1.40
Low	0.95	1.10	1.16	1.22	1.30	1.51	1.59	1.53	1.56	1.58
Average	1.09	1.13	1.21	1.31	1.44	1.57	1.54	1.48	1.50	1.46
End of period	0.94	1.12	1.18	1.22	1.32	1.56	1.59	1.52	1.47	1.54

(1) Reflects full-time equivalent number of employees, comprising full-time and part-time employees and adjustments for overtime hours.

Table 7 • Revenue and Revenue Growth (\$ millions, except as noted)

For the year ended October 31	2007	2006	2005	2004	2003	5-year CAGR	10-year CAGR
Net Interest Income							
Net interest income as reported	4,843	4,744	4,787	4,798	4,777	0.6	1.9
Taxable equivalent basis (teb) adjustment	180	127	119	139	152	11.2	5.2
Net interest income (teb)	5,023	4,871	4,906	4,937	4,929	0.9	2.0
Year-over-year growth (%)	3.1	(0.7)	(0.6)	0.2	2.4	na	na
Net Interest Margin (1)							
Average earning assets	304,471	261,461	243,196	225,718	213,959	8.6	5.6
Net interest margin (as reported) (%)	1.59	1.81	1.97	2.13	2.23	na	na
Net interest margin (teb) (%)	1.65	1.86	2.02	2.19	2.30	na	na
Canadian dollar net interest margin (teb) (%)	2.19	2.44	2.50	2.67	2.80	na	na
U.S. dollar and other currencies net interest margin (teb) (%)	0.84	0.88	1.20	1.46	1.63	na	na
Non-Interest Revenue							
Securities commissions and fees	1,145	1,051	1,092	1,055	894	7.1	4.4
Deposit and payment service charges	728	729	734	746	756	(0.1)	3.7
Trading revenues (losses)	(487)	718	496	200	275	nm	nm
Lending fees	406	337	313	317	293	5.8	5.4
Card fees	107	396	334	261	290	(16.2)	(8.1)
Investment management and custodial fees	322	298	305	307	303	0.5	0.7
Mutual fund revenues	576	499	437	378	321	13.3	14.0
Securitization revenues	296	100	113	177	244	(2.1)	25.0
Underwriting and advisory fees	528	407	357	343	268	18.3	11.6
Securities gains (losses), other than trading	246	145	165	175	(41)	nm	16.9
Foreign exchange, other than trading	132	102	97	177	160	(2.6)	0.5
Insurance income	230	204	162	139	124	16.9	13.9
Other revenues	277	255	447	276	333	(25.0)	1.9
Total non-interest revenue	4,506	5,241	5,052	4,551	4,220	2.8	4.2
Year-over-year growth (%)	(14.0)	3.8	11.0	7.8	7.6	na	na
Non-interest revenue as a % of total revenue (teb)	47.3	51.8	50.7	48.0	46.1	na	na
Total Revenue (as reported)							
Total Revenue (teb)	9,349	9,985	9,839	9,349	8,997	1.6	2.9
Total Revenue (teb)	9,529	10,112	9,958	9,488	9,149	1.8	3.0
Year-over-year growth (teb) (%)	(5.8)	1.5	5.0	3.7	4.7	na	na

(1) Effective 2007, net interest margin has been calculated based on earning assets rather than total assets. Prior year data has been restated.

nm – not meaningful

na – not applicable

Table 8 • Non-Interest Expense and Expense-to-Revenue Ratio (\$ millions, except as noted)

For the year ended October 31	2007	2006	2005	2004	2003	5-year CAGR	10-year CAGR
Non-Interest Expense							
Employee compensation							
Salaries	1,964	1,903	1,903	1,901	1,981	(0.6)	(1)
Performance-based compensation	1,275	1,322	1,277	1,160	1,058	6.2	(1)
Employee benefits	586	599	571	583	539	5.8	8.8
Total employee compensation	3,825	3,824	3,751	3,644	3,578	2.4	4.2
Premises and equipment							
Rental of real estate	257	246	198	182	174	7.5	5.6
Premises, furniture and fixtures	242	230	253	263	271	(3.3)	0.3
Property taxes	28	26	45	52	52	(11.7)	(3.6)
Computers and equipment	776	709	768	755	767	0.3	4.6
Total premises and equipment	1,303	1,211	1,264	1,252	1,264	0.4	3.6
Other expenses							
Communications	149	131	122	138	162	(2.9)	(4.9)
Business and capital taxes	47	94	107	99	106	(9.3)	(9.5)
Professional fees	301	287	243	262	255	0.6	1.8
Travel and business development	287	253	247	239	225	2.0	1.9
Other	484	509	504	431	392	7.0	11.0
Total other expenses	1,268	1,274	1,223	1,169	1,140	2.5	2.7
Amortization of intangible assets	46	44	94	104	105	(12.1)	5.1
Restructuring charge	159	—	—	—	—	nm	nm
Total Non-Interest Expense	6,601	6,353	6,332	6,169	6,087	1.8	3.8
Year-over-year growth (%)	3.9	0.3	2.6	1.4	0.9	na	na
Non-interest expense-to-revenue ratio (teb) (%)	69.3	62.8	63.6	65.0	66.5	na	na
Government Levies and Taxes (2)							
Government levies other than income taxes							
Payroll levies	165	162	152	163	156	2.0	3.0
Property taxes	28	26	45	52	52	(11.7)	(3.6)
Provincial capital taxes	37	86	100	91	100	(11.6)	(9.7)
Business taxes	10	8	7	8	6	4.9	(8.6)
Goods and services tax and sales tax	122	128	127	149	158	(3.0)	0.7
Total government levies other than income taxes	362	410	431	463	472	(3.0)	(1.1)
Provision for income taxes reported in:							
Statement of income (3)	189	717	874	971	652	(13.4)	(13.9)
Statement of changes in shareholders' equity	471	156	101	246	601	nm	nm
Total income taxes	660	873	975	1,217	1,253	7.3	(1.2)
Total Government Levies and Taxes	1,022	1,283	1,406	1,680	1,725	2.9	(1.2)
Total government levies and taxes as a % of net income before taxes and government levies	38.1	33.9	38.0	45.0	59.4	na	na
Effective income tax rate (teb)	14.3	23.6	28.8	32.4	30.8	na	na

Supplemental Information

(1) Salaries and performance-based compensation were not separately reported in 1997. Together, they have increased at a 10-year compound annual growth rate of 3.6%.

(2) Government levies are included in various non-interest expense categories.

(3) On a taxable equivalent basis the provision for income taxes was \$369 million in 2007 and \$844 million in 2006. See Non-GAAP measures on page 34.

na — not applicable

nm — not meaningful

Table 9 • Average Assets, Liabilities and Interest Rates (teb) (\$ millions, except as noted)

	2007			2006			2005		
	Average balances	Average interest rate (%)	Interest income/ expense	Average balances	Average interest rate (%)	Interest income/ expense	Average balances	Average interest rate (%)	Interest income/ expense
For the year ended October 31									
Assets									
Canadian Dollar									
Deposits with other banks	3,469	4.22	146	3,035	3.86	117	1,907	2.67	51
Securities	42,252	3.77	1,594	30,819	3.57	1,101	29,638	3.83	1,136
Loans									
Residential mortgages	54,735	5.14	2,812	56,556	4.95	2,802	51,954	4.58	2,379
Non-residential mortgages	2,832	5.99	170	2,618	5.92	155	2,483	5.80	144
Consumer instalment and other personal	21,972	6.80	1,495	19,305	6.34	1,224	17,494	5.49	960
Credit cards	3,831	11.61	445	4,591	11.20	514	4,244	10.79	458
Businesses and governments (1)	51,519	4.96	2,558	46,305	4.57	2,118	43,248	3.63	1,570
Total loans	134,889	5.55	7,480	129,375	5.27	6,813	119,423	4.61	5,511
Other non-interest bearing assets	45,648			44,016			46,615		
Total Canadian dollar	226,258	4.08	9,220	207,245	3.88	8,031	197,583	3.39	6,698
U.S. Dollar and Other Currencies									
Deposits with other banks	20,661	4.75	982	16,378	3.98	652	16,555	3.35	555
Securities	41,206	4.22	1,740	30,077	3.94	1,184	28,789	2.82	813
Loans									
Residential mortgages	6,635	5.17	343	6,259	4.89	306	6,092	4.65	283
Non-residential mortgages	3,107	6.47	201	2,708	6.31	171	2,521	5.91	149
Consumer instalment and other personal	9,921	6.43	638	9,522	5.90	562	8,679	4.87	423
Credit cards	25	4.00	1	36	2.78	1	21	4.76	1
Businesses and governments (1)	40,070	7.22	2,893	31,065	6.86	2,132	27,277	4.99	1,362
Total loans	59,758	6.82	4,076	49,590	6.40	3,172	44,590	4.97	2,218
Other non-interest bearing assets	12,692			5,841			8,985		
Total U.S. dollar and other currencies	134,317	5.06	6,798	101,886	4.92	5,008	98,919	3.63	3,586
Total All Currencies									
Total assets and interest income	360,575	4.44	16,018	309,131	4.22	13,039	296,502	3.47	10,284
Liabilities									
Canadian Dollar									
Deposits									
Banks	2,650	3.43	91	2,965	2.83	84	2,753	2.00	55
Businesses and governments	60,653	3.27	1,984	56,168	2.27	1,274	49,975	1.05	524
Individuals	59,375	2.52	1,495	58,184	2.27	1,319	57,471	2.07	1,192
Total deposits	122,678	2.91	3,570	117,317	2.28	2,677	110,199	1.61	1,771
Subordinated debt and other interest bearing liabilities	41,285	4.01	1,655	35,090	3.80	1,333	32,434	3.42	1,110
Other non-interest bearing liabilities	47,233			40,900			42,173		
Total Canadian dollar	211,196	2.47	5,225	193,307	2.07	4,010	184,806	1.56	2,881
U.S. Dollar and Other Currencies									
Deposits									
Banks	29,676	4.97	1,475	23,028	4.48	1,031	21,974	2.93	644
Businesses and governments	54,223	4.23	2,295	39,629	4.03	1,596	36,365	2.71	984
Individuals	17,799	3.18	565	17,245	2.55	439	18,149	1.68	304
Total deposits	101,698	4.26	4,335	79,902	3.84	3,066	76,488	2.53	1,932
Subordinated debt and other interest bearing liabilities	23,939	5.99	1,435	18,062	6.05	1,092	16,316	3.46	565
Other non-interest bearing liabilities	8,351			3,582			5,747		
Total U.S. dollar and other currencies	133,988	4.31	5,770	101,546	4.10	4,158	98,551	2.53	2,497
Total All Currencies									
Total liabilities and interest expense	345,184	3.19	10,995	294,853	2.77	8,168	283,357	1.90	5,378
Shareholders' equity	15,391			14,278			13,145		
Total Liabilities, Interest Expense and Shareholders' Equity	360,575	3.05	10,995	309,131	2.64	8,168	296,502	1.81	5,378
Net interest margin									
– based on earning assets		1.65			1.86			2.02	
– based on total assets		1.39			1.58			1.65	
Net interest income			5,023			4,871			4,906

(1) Includes securities purchased under resale agreements.

Table 10 • Volume/Rate Analysis of Changes in Net Interest Income (teb) (\$ millions)

For the year ended October 31	2007/2006			2006/2005		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Average balance	Average rate	Total	Average balance	Average rate	Total
Assets						
Canadian Dollar						
Deposits with other banks	16	13	29	30	36	66
Securities	409	84	493	45	(80)	(35)
Loans						
Residential mortgages	(92)	102	10	211	212	423
Non-residential mortgages	13	2	15	8	3	11
Consumer instalment and other personal	169	102	271	99	165	264
Credit cards	(85)	16	(69)	37	19	56
Businesses and governments	239	201	440	111	437	548
Total loans	244	423	667	466	836	1,302
Other non-interest bearing assets	—	—	—	—	—	—
Change in Canadian dollar interest income	669	520	1,189	541	792	1,333
U.S. Dollar and Other Currencies						
Deposits with other banks	171	159	330	(6)	103	97
Securities	438	118	556	36	335	371
Loans						
Residential mortgages	20	17	37	8	15	23
Non-residential mortgages	25	5	30	11	11	22
Consumer instalment and other personal	24	52	76	41	98	139
Credit cards	(1)	1	—	1	(1)	—
Businesses and governments	618	143	761	189	581	770
Total loans	686	218	904	250	704	954
Other non-interest bearing assets	—	—	—	—	—	—
Change in U.S. dollar and other currencies interest income	1,295	495	1,790	280	1,142	1,422
Total All Currencies						
Change in total interest income (a)	1,964	1,015	2,979	821	1,934	2,755
Liabilities						
Canadian Dollar						
Deposits						
Banks	(10)	17	7	4	25	29
Businesses and governments	102	608	710	65	685	750
Individuals	28	148	176	15	112	127
Total deposits	120	773	893	84	822	906
Subordinated debt and other interest bearing liabilities	118	204	322	91	132	223
Other non-interest bearing liabilities	—	—	—	—	—	—
Change in Canadian dollar interest expense	238	977	1,215	175	954	1,129
U.S. Dollar and Other Currencies						
Deposits						
Banks	299	145	444	31	356	387
Businesses and governments	588	111	699	88	524	612
Individuals	14	112	126	(15)	150	135
Total deposits	901	368	1,269	104	1,030	1,134
Other interest bearing liabilities	355	(12)	343	60	467	527
Other non-interest bearing liabilities	—	—	—	—	—	—
Change in U.S. dollar and other currencies interest expense	1,256	356	1,612	164	1,497	1,661
Total All Currencies						
Change in total interest expense (b)	1,494	1,333	2,827	339	2,451	2,790
Change in total net interest income (a – b)	470	(318)	152	482	(517)	(35)

Supplemental Information

Table 11 • Net Loans and Acceptances – Segmented Information (\$ millions, except as noted)

As at October 31	Canada					United States					Other countries				
	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003
Consumer															
Residential mortgages (1)	43,442	53,922	51,481	47,533	43,533	5,948	6,425	6,274	5,728	5,307	–	–	–	–	–
Cards	4,493	3,631	4,648	3,698	2,963	–	–	–	4	4	–	–	–	–	–
Consumer instalment and other personal loans	24,393	20,482	18,683	16,971	15,589	8,795	9,935	9,245	7,914	6,512	–	–	–	–	–
Total consumer	72,328	78,035	74,812	68,202	62,085	14,743	16,360	15,519	13,646	11,823	–	–	–	–	–
Commercial and corporate															
Commercial and corporate, excluding securities borrowed or purchased under resale agreements	51,548	42,453	37,097	35,300	33,844	21,531	21,024	17,600	15,778	16,719	4,843	2,598	1,988	1,723	1,867
Securities borrowed or purchased under resale agreements	21,784	18,639	16,178	13,233	6,288	15,309	12,790	12,102	9,376	14,710	–	–	–	–	–
Total commercial and corporate	73,332	61,092	53,275	48,533	40,132	36,840	33,814	29,702	25,154	31,429	4,843	2,598	1,988	1,723	1,867
Total loans and acceptances, net of specific allowances	145,660	139,127	128,087	116,735	102,217	51,583	50,174	45,221	38,800	43,252	4,843	2,598	1,988	1,723	1,867
General allowance	(587)	(555)	(590)	(630)	(800)	(311)	(350)	(369)	(380)	(380)	–	–	–	–	–
Total net loans and acceptances	145,073	138,572	127,497	116,105	101,417	51,272	49,824	44,852	38,420	42,872	4,843	2,598	1,988	1,723	1,867

Table 12 • Net Impaired Loans and Acceptances – Segmented Information (\$ millions, except as noted)

As at October 31	Canada					United States					Other countries				
	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003
Consumer															
Residential mortgages	112	110	87	120	137	–	–	–	–	–	–	–	–	–	–
Consumer instalment and other personal loans	54	42	33	30	39	–	5	5	5	5	–	–	–	–	–
Total consumer	166	152	120	150	176	–	5	5	5	5	–	–	–	–	–
Commercial and corporate	183	143	166	183	219	211	202	326	421	766	3	11	18	62	147
Total impaired loans and acceptances, net of specific allowances for credit losses	349	295	286	333	395	211	207	331	426	771	3	11	18	62	147
General allowance	(587)	(555)	(590)	(630)	(800)	(311)	(350)	(369)	(380)	(380)	–	–	–	–	–
Total net impaired loans and acceptances (NIL)	(238)	(260)	(304)	(297)	(405)	(100)	(143)	(38)	46	391	3	11	18	62	147
Condition Ratios															
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	un	un	un	un	un	un	un	un	un	un	un	un	un	un	un
NIL as a % of net loans and acceptances (2)	(0.16)	(0.19)	(0.24)	(0.26)	(0.40)	(0.20)	(0.29)	(0.08)	0.12	0.91	0.06	0.42	0.91	3.60	7.87
NIL as a % of net loans and acceptances (2)															
Consumer	0.23	0.19	0.16	0.22	0.28	–	0.03	0.03	0.04	0.04	–	–	–	–	–
Commercial and corporate, excluding securities borrowed or purchased under resale agreements	0.36	0.34	0.45	0.52	0.65	0.98	0.96	1.85	2.67	4.58	0.06	0.42	0.91	3.60	7.87

(1) Excludes residential mortgages classified as commercial corporate loans (2007 – \$3.0 billion, 2006 – \$2.9 billion, 2005 – \$3.1 billion, 2004 – \$3.2 billion, 2003 – \$3.3 billion).

(2) Aggregate balances are net of specific and general allowances; the consumer, commercial and corporate categories are stated net of specific allowances only.

(3) Includes amounts returning to performing status, sales, repayments, the impact of foreign exchange, and offsets for consumer write-offs that are not recognized as formations.

(4) Excludes ACL for off-balance sheet exposure of \$6 million in 2003.

un – unavailable, as equity is not allocated on a country of risk basis

Table 13 • Net Loans and Acceptances – Segmented Information (\$ millions)

Total				
2007	2006	2005	2004	2003
49,390	60,347	57,755	53,261	48,840
4,493	3,631	4,648	3,702	2,967
33,188	30,417	27,928	24,885	22,101
87,071	94,395	90,331	81,848	73,908
77,922	66,075	56,685	52,801	52,430
37,093	31,429	28,280	22,609	20,998
115,015	97,504	84,965	75,410	73,428
202,086	191,899	175,296	157,258	147,336
(898)	(905)	(959)	(1,010)	(1,180)
201,188	190,994	174,337	156,248	146,156

Total				
2007	2006	2005	2004	2003
112	110	87	120	137
54	47	38	35	44
166	157	125	155	181
397	356	510	666	1,132
563	513	635	821	1,313
(898)	(905)	(959)	(1,010)	(1,180)
(335)	(392)	(324)	(189)	133
4.07	3.81	4.92	7.48	13.91
(0.17)	(0.21)	(0.19)	(0.12)	0.09
0.19	0.17	0.14	0.19	0.24
0.51	0.54	0.90	1.26	2.16

As at October 31	2007	2006	2005	2004	2003
Net Loans and Acceptances by Province					
Atlantic provinces	6,248	6,069	5,839	5,934	6,097
Quebec	15,415	16,459	16,695	15,707	15,163
Ontario	83,674	79,535	72,314	63,509	51,650
Prairie provinces	22,344	19,278	16,829	16,094	13,678
British Columbia and territories	17,979	17,786	16,410	15,491	15,629
Total net loans and acceptances in Canada	145,660	139,127	128,087	116,735	102,217
Net Commercial and Corporate Loans by Industry, excluding Securities Borrowed or Purchased under Resale Agreements					
Commercial mortgages	8,994	8,505	8,246	7,954	7,684
Commercial real estate	6,532	5,830	4,242	3,517	3,294
Construction (non-real estate)	1,425	1,102	936	939	1,009
Retail trade	4,398	3,842	3,494	3,242	3,276
Wholesale trade	3,200	3,025	2,804	2,558	2,735
Agriculture	3,471	3,211	2,842	2,536	2,597
Communications	1,218	1,547	1,179	1,415	1,742
Manufacturing	7,238	7,733	6,977	6,495	7,499
Mining	1,522	510	375	290	430
Oil and gas	5,474	5,230	2,829	2,863	1,913
Transportation	1,467	1,322	932	951	1,143
Utilities	977	985	916	771	937
Forest products	767	692	644	544	698
Service industries	8,307	6,904	7,043	6,451	6,225
Financial institutions	16,393	9,595	6,348	5,875	6,252
Other	6,539	6,042	6,878	6,400	4,996
	77,922	66,075	56,685	52,801	52,430

Table 14 • Net Impaired Loans and Acceptances – Segmented Information (\$ millions)

As at October 31	2007	2006	2005	2004	2003
Net Impaired Commercial and Corporate Loans					
Commercial mortgages	43	31	36	32	46
Commercial real estate	96	8	22	36	17
Construction (non-real estate)	5	7	7	17	27
Retail trade	9	21	39	37	10
Wholesale trade	24	18	24	19	104
Agriculture	18	22	15	18	17
Communications	—	88	116	149	202
Manufacturing	80	98	117	123	228
Mining	—	—	—	—	63
Oil and gas	—	1	1	—	—
Transportation	15	8	18	28	29
Utilities	—	—	24	75	252
Forest products	5	4	5	5	32
Service industries	58	36	54	68	71
Financial institutions	23	4	11	23	34
Other	21	10	21	36	—
	397	356	510	666	1,132

Table 15 • Changes in Impaired Loans and Allowances for Credit Losses (\$ millions)

As at October 31	2007	2006	2005	2004	2003
Gross impaired loans and acceptances, beginning of year	666	804	1,119	1,918	2,337
Additions to impaired loans and acceptances	588	420	423	607	1,303
Reductions in impaired loans and acceptances (3)	(143)	(220)	(319)	(936)	(1,156)
Write-offs	(391)	(338)	(419)	(470)	(566)
Gross Impaired Loans and Acceptances, End of Year	720	666	804	1,119	1,918
Allowances for Credit Losses (ACL), beginning of year	1,058	1,128	1,308	1,785	1,949
Increases – specific allowance	395	322	290	163	402
Increases (decreases) – general allowance	(7)	(54)	(51)	(170)	—
Write-offs	(391)	(338)	(419)	(470)	(566)
Allowances for Credit Losses (4), End of Year	1,055	1,058	1,128	1,308	1,785